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UNITED STATES BANKRUPTCY COURT
DISTRICT OF NEW JERSEY

In re:

G-I HOLDINGS INC., et al.,

Debtors.

In Proceedings for Reorganization under Chapter 11

Case Nos. 01-30135 (RG) and 01-38790 (RG)
(Jointly Administered)

Hon. Rosemary Gambardella, U.S.B.J.

Hearing Date: September 26, 2006, at 11:00 a.m.

Oral Argument: Requested

**MOTION OF G-I HOLDINGS INC. FOR AN ORDER PURSUANT TO
BANKRUPTCY RULE 9019(A) APPROVING SETTLEMENT WITH KWELM
AND THE BERMUDA FIRE & MARINE INSURANCE COMPANY LIMITED IN
LIQUIDATION**

TO: THE HONORABLE ROSEMARY GAMBARDELLA
UNITED STATES BANKRUPTCY JUDGE

CREDITORS REQUESTING NOTICE AND OTHER PARTIES-IN-INTEREST

As and for its motion, pursuant to Federal Rule of Bankruptcy Procedure
("Bankruptcy Rule") 9019(a) (the "Motion"), for approval of a settlement of certain

environmental coverage claims against and distribution of proceeds from KWELM and The Bermuda Fire & Marine Insurance Company Limited, both in liquidation proceedings in foreign courts (collectively, the “Insolvent Insurers”), G-I Holdings Inc., a chapter 11 debtor in possession herein (“G-I” or the “Debtor”), respectfully represents:

SUMMARY OF MOTION

1. By this motion, G-I seeks approval of a settlement among G-I, International Specialty Products Inc. (“ISP”), Building Materials Corporation of America d/b/a GAF Materials Corporation (“BMCA” and, collectively with G-I and ISP, “Policyholders”) and the Insolvent Insurers with respect to the Insolvent Insurers’ liability for defense and indemnity costs arising from certain allegedly contaminated sites located throughout the United States as more particularly described herein.

JURISDICTION

2. This Court has jurisdiction to consider this application pursuant to 28 U.S.C. §1334. Consideration of this application is a core proceeding pursuant to 28 U.S.C. § 157(b). Venue of this proceeding is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409.

BACKGROUND

A. The Debtor’s Bankruptcy Case.

3. On January 5, 2001 (the “Commencement Date”), G-I commenced with this Court a voluntary case under chapter 11 of title 11, United States Code (the “Bankruptcy Code”). Subsequently, on August 3, 2001, ACI Inc. (“ACI”), a subsidiary of G-I, commenced its chapter 11 case. ACI’s application for joint administration with

G-I for administrative purposes was approved by this Court on October 10, 2001. Both G-I and ACI are authorized to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

4. No trustee or examiner has been appointed in these chapter 11 cases. On January 18, 2001, the United States Trustee appointed a statutory committee of asbestos claimants to serve in G-I's chapter 11 case. Thereafter, the United States Trustee changed the name of the statutory creditors' committee to the Official Committee of Asbestos Claimants (the "Committee").

5. On May 29, 2001, G-I filed an application for the appointment of a legal representative for the present and future holders of asbestos-related demands. By order dated September 6, 2001, the Court granted G-I's application, and thereafter the parties conferred regarding appropriate candidates. By order dated October 10, 2001, the Court appointed C. Judson Hamlin as the Legal Representative of Present and Future Holders of Asbestos Related Demands for G-I (the "Legal Demand Representative").

B. The Environmental Coverage Action.

6. Policyholders are the plaintiffs in an insurance coverage action captioned *G-I Holdings Inc. et al. v. Hartford Accident and Indemnity Company et al.*, Docket No. L-980-97 which is pending in the Superior Court of New Jersey, Law Division, Somerset County (the "Environmental Coverage Action").

7. Policyholders filed the Environmental Coverage Action to secure insurance coverage for defense and indemnity costs arising from over 120 allegedly contaminated sites located across the United States. Each Policyholder bears

responsibility, and owns the insurance coverage rights, for different sites at issue in the Environmental Coverage Action.¹ Policyholders' insurance policies provide separate liability limits (*i.e.*, "per occurrence limits," but not "aggregate limits") for each of these sites.

8. Through the Environmental Coverage Action, Policyholders seek coverage under insurance policies sold by, among other insurers, Certain Underwriters at Lloyds, London and Certain London Market Insurance Companies (collectively, "London Market Insurers"). A number of London Market Insurers subscribed to the insurance policies sold to Policyholders (hereinafter, "London Market Policies"), including KWELM, an acronym for the following five insolvent insurance companies: Kingscroft Insurance Company Limited, Walbrook Insurance Company Limited, El Paso Insurance Company Limited, Lime Street Insurance Company Limited and Mutual Re Insurance Company Limited. The Bermuda Fire & Marine Insurance Company Limited ("BFMIC") also subscribed to the London Market Policies.

C. The Insurance Insolvency Proceedings.

9. Each of the KWELM companies has been adjudged insolvent under the laws of the United Kingdom and Bermuda, which means the companies lack sufficient assets to meet their liabilities, including estimated future claims. The courts in England and Bermuda approved a Scheme of Arrangement for KWELM in 1993 (the "KWELM Scheme"), and KWELM Management Services Limited ("KMS") currently manages KWELM's run-off. The KWELM Scheme established a September 29, 2004

¹ In connection with their 1991 corporate restructuring, the predecessors-in-interest to Policyholders allocated their environmental liabilities in general among the entities devolving from this corporate restructuring based on whether the primary waste-generator facility took part in the

Bar Date, by which all policyholders and other creditors needed to submit claims for payment from KWELM. Policyholders submitted their claim to KWELM on September 29, 2004.

10. The Bermudian and English courts also adjudged BFMIC insolvent. These courts approved BFMIC's Amended Scheme of Arrangement on June 18, 2004 (the "BFMIC Scheme" and, together with the KWELM Scheme, collectively the "Schemes"), and the BFMIC Scheme became effective on June 25, 2004. The BFMIC Scheme set the Bar Date for September 29, 2004, and Policyholders submitted their claim on this date to KMS, which also manages BFMIC's run-off.

D. The Allocation of the Coverage.

11. The Insolvent Insurers subscribed to London Market Policies which sit "excess" of substantial underlying coverage. Only a few of the sites where Policyholders incurred covered environmental liabilities implicate the Insolvent Insurers.

12. Due to the complexity of allocating environmental claims among primary and excess insurers, Policyholders retained a consultant, Mr. Stephen Sellick, to assist in presenting their claims to the Insolvent Insurers. Mr. Sellick acts as Managing Director of the environment and insurance claims practice at LECG, LLC. Mr. Sellick specializes in the management of complex quantitative analysis in litigation matters, particularly matters involving environmental liability claims. Mr. Sellick's experience includes the development and analysis of insurance allocation

manufacture, distribution and sale of building materials or of chemical products or was a discontinued operation. This allocation continued in all subsequent corporate restructurings.

methodologies using computer-based models for the allocation of multi-year losses to multi-year policy programs.

13. In assisting Policyholders with quantifying their claims under the London Market Policies subscribed to by the Insolvent Insurers, Mr. Sellick, at the direction of outside counsel for Policyholders McCarter & English, performed an allocation analysis involving Policyholders' triggered insurance policies, including the London Market Policies to which the Insolvent Insurers subscribed (the "Allocation Analysis").² Mr. Sellick's Allocation Analysis determined that only three (3) sites reach the Insolvent Insurers' excess coverage policies: the Linden site in New Jersey, the LCP site in New Jersey, and the Picillo site in Rhode Island. Based on the allocation of environmental liabilities in the 1991 and subsequent corporate restructurings, ISP bears responsibility for the environmental cleanup costs, has paid environmental cleanup costs, and owns the insurance coverage rights for each of these sites (hereinafter, "ISP Subject Sites").³ Given Mr. Sellick's allocation analysis, when Policyholders filed claims in the insurance insolvency proceedings, they could only

² The Environmental Coverage Action involves not only the London Market Policies subscribed to by KWELM and BFMIC but numerous other policies issued by other insurers. The Policyholders continue to litigate and attempt to settle their claims in the Environmental Coverage Action both against solvent carriers which subscribed to the London Market Policies and against other carriers which provided coverage for the exact same claims. As a result, the Allocation Analysis remains confidential. To provide this analysis without confidential treatment would impact the Debtor's position and settlement discussions in the ongoing Environmental Coverage Action, as well as its alleged liability to governmental entities asserting environmental claims and other potentially responsible parties ("PRPs"). As a result, the Debtor has not filed this analysis with the Motion. Instead, the Debtor has agreed to provide relevant portions of the analysis to the Committee subject to an appropriate confidentiality agreement. The Debtor is prepared to file the relevant portions of the analysis with the Bankruptcy Court under seal and to provide them to other interested parties (other than the defendants in the Environmental Coverage Action, governmental entities asserting environmental claims and co-liable PRPs at the environmental sites) subject to an appropriate confidentiality agreement to the extent necessary to adjudicate the Motion.

³ In fact, the allocation of the Picillo Site to ISP already has been recognized by the Bankruptcy Court in its Order Authorizing G-I Holdings Inc. to Assume and Assign Certain Environmental

support a claim for coverage from the Insolvent Insurers for environmental liabilities at these ISP Subject Sites.

14. Mr. Sellick's Allocation Analysis (*see* n. 2) confirms that estimated costs and liabilities arising from the Debtor and BMCA sites implicate none of the excess London Market Policies to which the Insolvent Insurers subscribed. The analysis demonstrates that the Debtor and BMCA must incur, in most cases, millions of dollars in future additional costs before these sites can implicate the Insolvent Insurers' excess coverage. The past costs and future estimated liability risks at the Debtor and BMCA sites were not large enough to reach the Insolvent Insurers' excess coverage policies.

15. As a result, Policyholders' settlement with the Insolvent Insurers includes no consideration for environmental damages or costs incurred at sites for which the Debtor and BMCA bear responsibility for the environmental cleanup.

E. The Insolvent Insurers' Determinations and Settlement.

17. The Insolvent Insurers reviewed Policyholders' claims and, on March 24 and 25, 2005, issued notices of determination which valued the claims at less than the amount asserted by the Policyholders.⁴

Agreements to ISP Environmental Services, Inc. Pursuant to 11 U.S.C.A. § 365 and for Related Relief which was entered on May 29, 2003.

⁴ Because, as with the allocation analysis as referenced in n. 2, the specific amount of the Policyholders' claim established under the KWELM Scheme and the amount of its distribution could impact the Debtor's other claims in Environmental Coverage Action as well as its alleged liability to governmental entities asserting environmental claims and other PRPs, the Debtor has not included these amounts in this Motion. Instead, the Debtor has agreed to provide this information to the Committee subject to an appropriate confidentiality agreement. The Debtor is prepared to file the details with the Bankruptcy Court under seal and to provide them to other interested parties (other than the defendants in the Environmental Coverage Action and co-liable PRPs at the environmental sites) subject to an appropriate confidentiality agreement to the extent necessary to adjudicate the Motion.

18. Policyholders rejected the Insolvent Insurers' determinations, and the parties thereafter entered into intensive settlement negotiations. These negotiations included, among numerous other communications, an in-person meeting with the Insolvent Insurers' representatives from New York and London, during which Policyholders produced extensive supporting information on the actual past costs, and estimated future liability risks, arising from the ISP Subject Sites.

19. The Insolvent Insurers terminate all coverage obligations to the Policyholders upon their Scheme payments. Policyholders, therefore, could negotiate no "coverage-in-place" settlements with the Insolvent Insurers for future costs arising from its environmental sites. The Insolvent Insurers, for this same reason, refused to pay for speculative and/or uncertain future liability risks at Policyholders' environmental sites.

20. Policyholders, therefore, needed to demonstrate to the Insolvent Insurers the near certainty of their estimated future liability risks at the ISP Subject Sites. The Insolvent Insurers eventually accepted a substantially greater portion of Policyholders' estimated future liability risks at the ISP Subject Sites.

21. The parties' settlement negotiations resulted in an agreement acceptable to both parties. (To the extent necessary to adjudicate the Motion, a true copy of the Insolvent Insurers' revised determinations will be provided to the Court under seal and will be provided to the Committee and to other parties under a confidentiality agreement.)

22. On November 9, 2005, KWELM announced updated payment percentages. These percentages will result in KWELM's payment of approximately

eighty percent (80%) of the proposed amount for the ISP Subject Sites. In February 2006, BFMIC also increased its payment percentage from 50% to 82%. The Insolvent Insurers, moreover, expect to make a further distribution of between one and three percent as they collect residual reinsurance.

23. Policyholders have opened an interest bearing escrow account with JP Morgan Chase Bank, N.A. ("JP Morgan Chase"). This escrow account, with JP Morgan Chase acting as escrow agent, will hold all funds paid by the Insolvent Insurers (the "Escrowed Settlement Amount") pending the Bankruptcy Court's ruling on this approval motion.

F. The Risks of Not Pursuing the Settlement.

24. Had Policyholders not resolved their coverage claims with the Insolvent Insurers, then the Insolvent Insurers would have referred Policyholders' claims to the "Scheme Adjudicator," in London, for final disposition. The Schemes give the Adjudicator final say over the value of Policyholders' claims with no right of appeal. The Schemes identify Ivor Kiverstein as the Adjudicator. The Insolvent Insurers advised that as of the date of their settlement with Policyholders, the Adjudicator had resolved no disputed claims. Subsequently, however, Policyholders were advised that a company whose claim had been assessed at zero sent its claim to adjudication and that the Adjudicator affirmed the evaluation (at zero) and assessed the company 50% of the costs for the adjudicatory process.

25. Policyholders, therefore, have almost no basis upon which to predict how Mr. Kiverstein might value Policyholders' claims. However, given Mr. Kiverstein's actions with respect to this other contested claim, it is likely that the

adjudication process would have affirmed the determination made by KWELM as to the environmental award with a possibility that Policyholders also would be charged with the administrative costs.

26. Moreover, the Schemes give the Adjudicator sole discretion to resolve a disputed claim based upon the Insolvent Insurers' file or to request further written submissions from the parties. The Schemes forbid oral presentations. The Schemes also require the Adjudicator to "endeavor to resolve each dispute within 90 days of the matter being referred to him." Given this time limitation, Mr. Kiverstein probably would have ruled on Policyholders' objections based solely on the Insolvent Insurers' file.

27. The Schemes allow the Adjudicator to value claims below the amount determined by the Insolvent Insurers. Had Policyholders opted for adjudication, therefore, Mr. Kiverstein could have valued their claim at an amount lower than the Insolvent Insurers' initial determination. The Adjudicator also could have charged Policyholders for his time and expenses if he ruled against their challenge to the Insolvent Insurers' determinations.

28. Given the uncertainties presented by the adjudication process, and the Insolvent Insurers' acceptance of most of Policyholders' claim, Policyholders made a reasoned decision to accept the Insolvent Insurers' substantially increased revised determinations.

RELIEF REQUESTED AND BASIS THEREFOR

29. G-I seeks an order pursuant to Bankruptcy Rule 9019(a) approving its settlement with the Insolvent Insurers, ISP and BMCA with respect to the Insolvent

Insurers' liability for the defense and indemnity costs Policyholders asserted in their claims in the Insolvent Insurers' insolvency proceedings. As set forth more fully below, G-I believes the settlement is fair and reasonable based on Policyholders' expert's allocation of the available coverage among the Insolvent Insurers and Policyholders' other insurers.

The Settlement is Fair and Equitable, is in the Best Interests of G-I's Estate and Represents G-I's Sound Business Judgment

30. Bankruptcy Rule 9019(a) provides "[o]n motion by the trustee and after notice and a hearing, the court may approve a compromise or settlement." Fed. R. Bankr. P. 9019(a). In ruling on a motion pursuant to Bankruptcy Rule 9019(a), the court must find the proposed settlement fair and equitable and in the best interests of the debtor's estate. *See Protective Comm. for Indep. Stockholders of TMT Trailer Ferry, Inc. v. Anderson*, 390 U.S. 414, 424 (1968); *In re Heldor Indus., Inc.*, 131 B.R. 290 (D.N.J. 1992), *rev'd and vacated sub nom., State of N.J. Dept. of Environment Protection and Energy v. Heldor Indus., Inc.*, 989 F.2d 702 (3d Cir. 1993); *Fischer v. Pereira (In re 47-49 Charles Street Inc.)*, 209 B.R. 618, 620 (S.D.N.Y. 1997). To do so, the court should examine the settlement and determine whether it "falls below the lowest point in the range of reasonableness." *Cosoff v. Rodman (In re W.T. Grant Co.)*, 699 F.2d 599, 608 (2d Cir. 1983).

31. Here, G-I submits that Policyholders' settlement with the Insolvent Insurers is fair and equitable and falls within the range of reasonableness. In determining to compromise and settle its claims against the Insolvent Insurers, G-I has reviewed and considered all the factors pertinent to the approval of a compromise and settlement. After careful and expert analysis, G-I has determined that none of the past

costs and future liability risks relating to the G-I and BMCA sites reaches the London Market Policies to which the Insolvent Insurers subscribed. In fact, G-I and BMCA would have to incur, in most cases, millions of dollars in unanticipated additional costs before the sites for which G-I and BMCA bear responsibility reach the Insolvent Insurers' coverage. Therefore, it is undisputed that G-I and BMCA do not have any insurance coverage rights against the Insolvent Insurers for their sites. In addition, G-I believes that pursuing their claims against the Insolvent Insurers through the Schemes' adjudication process would necessitate substantial expense for G-I and, importantly, as determined by G-I's own thorough analysis of insurance coverage at the implicated sites, would yield no return for G-I. Moreover, as set forth in paragraphs 24 to 28, there are substantial risks in pursuing a contested adjudication of any claims it could assert under the Schemes.

32. For the foregoing reasons, G-I submits that Policyholders' business decision to resolve the claims with respect to the Insolvent Insurers' liability related to the defense and indemnity costs asserted in the insurance insolvency proceedings is sound and justified under the circumstances, is fair and equitable, and is in the best interests of G-I's creditors and its estate. Accordingly, G-I respectfully requests that the Court approve G-I's decision to settle the claims against the Insolvent Insurers and to authorize JP Morgan Chase to distribute the Escrowed Settlement Amount to ISP on account of its payments, liabilities and insurance recovery rights related to the ISP Subject Sites.

WAIVER OF MEMORANDUM OF LAW

33. Pursuant to D.N.J. LBR 9013-2, G-I respectfully requests that the Court waive the requirement that it file a memorandum of law in support of this Application. No memorandum of law is necessary because no novel issues of law are presented herein.

NOTICE

34. G-I has served notice of this Motion on (i) the Office of the United States Trustee for the District of New Jersey, (ii) the Official Committee of Asbestos Claimants, (iii) the Legal Demand Representative, (iv) KWELM, (v) the Bermuda Fire & Marine Insurance Company Limited, (vi) BMCA, (vii) ISP, and (viii) all other parties that have filed a notice of appearance in this case. G-I submits that, given the nature of the relief requested, no other or further notice need be given.

WHEREFORE, G-I respectfully requests that the Court approve its settlement with the Insolvent Insurers, ISP and BMCA and grant G-I such other and further relief as may be just.

Dated: September 6, 2006
Morristown, New Jersey

RIKER, DANZIG, SCHERER, HYLAND
& PERRETTI LLP

By: /s/ Dennis J. O'Grady
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UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF NEW JERSEY

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Debtors.

Chapter 11

Case No. 01-30135 (RG) and
01-38790 (RG) (Jointly Administered)

Hon. Rosemary Gambardella, Chief U.S.B.J.

**AFFIDAVIT OF ANTHONY BARTELL IN SUPPORT OF DEBTOR'S
MOTION FOR APPROVAL OF SETTLEMENT WITH KWELM AND
THE BERMUDA FIRE & MARINE INSURANCE COMPANY LIMITED
IN LIQUIDATION**

STATE OF NEW JERSEY)

COUNTY OF ESSEX)

Anthony Bartell, being duly sworn, deposes and says:

1. I am an attorney at law of the State of New Jersey, and I am a member of the firm of McCarter & English, LLP. I am Special Counsel for G-I Holdings Inc. which, along with ACI, Inc., is a debtor and debtor-in-possession herein ("G-I" or the "Debtor"). I make this

Affidavit in support of Debtor's motion for approval of a settlement with KWELM and The Bermuda Fire & Marine Insurance Company Limited In Liquidation (collectively, "Insolvent Insurers"). I am fully familiar with the facts set forth herein.

2. I represent G-I, International Specialty Products Inc. ("ISP") and Building Materials Corporation of America d/b/a GAF Materials Corporation ("BMCA") (collectively, "Policyholders") in an insurance coverage action captioned *G-I Holdings Inc. et al. v. Hartford Accident and Indemnity Company et. al.*, Docket No. L-980-97, Superior Court of New Jersey, Law Division, Somerset County ("Environmental Coverage Action").

A. The Environmental Coverage Action.

3. Policyholders filed the Environmental Coverage Action to secure insurance coverage for defense and indemnity costs arising from over 120 allegedly contaminated sites located across the United States. Each Policyholder bears responsibility, and owns the insurance coverage rights, for different sites at issue in the Environmental Coverage Action. Policyholders' insurance policies provide separate liability limits (*i.e.*, "per occurrence limits," but not "aggregate limits") for each of these sites.

4. Through the Environmental Coverage Action, Policyholders seek coverage under insurance policies sold by, among other insurers, Certain Underwriters at Lloyds, London and Certain London Market Insurance Companies (collectively, "London Market Insurers"). A number of London Market Insurers subscribed to the insurance policies sold to Policyholders (hereinafter, "London Market Policies"), including KWELM, an acronym for the following five insolvent insurance companies: Kingscroft Insurance Company Limited, Walbrook Insurance Company Limited, El Paso Insurance Company Limited, Lime Street Insurance Company Limited and Mutual Re Insurance Company Limited. The Bermuda Fire & Marine Insurance Company Limited ("BFMIC") also subscribed to the London Market Policies.

B. The Insurance Insolvency Proceedings

5. Each of the KWELM companies has been adjudged insolvent under the laws of the United Kingdom and Bermuda, which means the companies lack sufficient assets to meet their liabilities, including estimated future claims. The courts in England and Bermuda approved a Scheme of Arrangement for KWELM in 1993 (the “KWELM Scheme”), and KWELM Management Services Limited (“KMS”) currently manages KWELM’s run-off. The KWELM Scheme established a September 29, 2004 Bar Date, by which all policyholders and other creditors needed to submit claims for payment from KWELM. Policyholders submitted their claim to KWELM on September 29, 2004.

6. The Bermudian and English courts also adjudged BFMIC insolvent. These courts approved BFMIC’s Amended Scheme of Arrangement on June 18, 2004 (the “BFMIC Scheme” and, together with the KWELM Scheme, collectively, the “Schemes”), and the BFMIC Scheme became effective on June 25, 2004. The BFMIC Scheme set the Bar Date for September 29, 2004, and Policyholders submitted their claim on this date to KMS, which also manages BFMIC’s run-off.

C. The Allocation of the Coverage

7. The Insolvent Insurers subscribed to London Market Policies which sit “excess” of substantial underlying coverage. Only a few of the sites where Policyholders incurred covered environmental liabilities implicate the Insolvent Insurers.

8. Due to the complexity of allocating environmental claims among primary and excess insurers, Policyholders retained a consultant, Mr. Stephen Sellick, to assist in presenting their claims to the Insolvent Insurers. Mr. Sellick acts as Managing Director of the environment and insurance claims practice at LECG, LLC. Mr. Sellick specializes in the management of complex quantitative analysis in litigation matters, particularly matters involving environmental

liability claims. Mr. Sellick's experience includes the development and analysis of insurance allocation methodologies using computer-based models for the allocation of multi-year losses to multi-year policy programs.

9. In assisting Policyholders with quantifying their claims under the London Market Policies subscribed to by the Insolvent Insurers, Mr. Sellick, at the direction of outside counsel to the Policyholders, McCarter & English, performed an allocation analysis involving Policyholders' triggered insurance policies, including the London Market Policies to which the Insolvent Insurers subscribed (the "Allocation Analysis"). Mr. Sellick's Allocation Analysis determined that only three (3) sites reach the Insolvent Insurers' excess coverage policies: the Linden site in New Jersey, the LCP site in New Jersey, and the Picillo site in Rhode Island. Based on the allocation of environmental liabilities among the three Policyholders, ISP bears responsibility for the environmental cleanup costs, has paid environmental cleanup costs, and owns the insurance coverage rights for each of these sites (hereinafter, "ISP Subject Sites"). Given Mr. Sellick's allocation analysis, when Policyholders filed claims in the insurance insolvency proceedings, they could only support a claim for coverage from the Insolvent Insurers for environmental liabilities at these ISP Subject Sites.

10. Mr. Sellick's Allocation Analysis confirms that estimated costs and liabilities arising from the Debtor and BMCA sites implicate none of the excess London Market Policies to which the Insolvent Insurers subscribed. The analysis demonstrates that Debtor and BMCA must incur, in most cases, millions of dollars in future additional costs before these sites can implicate the Insolvent Insurers' excess coverage. The past costs and future estimated liability risks at the Debtor and BMCA sites are not large enough to reach the Insolvent Insurers' excess coverage policies.

11. As a result, Policyholders' settlement with the Insolvent Insurers includes no consideration for environmental damages or costs incurred at sites for which the Debtor and BMCA bear responsibility for the environmental cleanup.

D. The Insolvent Insurers' Determinations and Settlement

12. The Insolvent Insurers reviewed Policyholders' claims and, on March 24 and 25, 2005, issued notices of determination which valued the claims at less than the amount asserted by the Policyholders. (To the extent necessary to adjudicate the Motion, a true copy of the Insolvent Insurers' determinations will be provided to the Court under seal and will be provided to the Committee and other parties under a confidentiality agreement.)

13. Policyholders rejected the Insolvent Insurers' determinations, and the parties thereafter entered into intensive settlement negotiations. These negotiations included, among numerous other communications, an in-person meeting with the Insolvent Insurers' representatives from New York and London, during which Policyholders produced extensive supporting information on the actual past costs, and estimated future liability risks, arising from the ISP Subject Sites.

14. The Insolvent Insurers terminate all coverage obligations to the Policyholders upon their Scheme payments. Policyholders, therefore, could negotiate no "coverage-in-place" settlements with the Insolvent Insurers for future costs arising from its environmental sites. The Insolvent Insurers, for this same reason, refused to pay for speculative and/or uncertain future liability risks at Policyholders' environmental sites.

15. Policyholders, therefore, needed to demonstrate to the Insolvent Insurers the near certainty of their estimated future liability risks at the ISP Subject Sites. The Insolvent Insurers eventually accepted a substantially greater portion of Policyholders' estimated future liability risks at the ISP Subject Sites.

16. The parties' settlement negotiations resulted in an agreement acceptable to both parties. (To the extent necessary to adjudicate the Motion, a true copy of the Insolvent Insurers' revised determinations will be provided to the Court under seal and will be provided to the Committee and other parties under a confidentiality agreement.)

17. On November 9, 2005, KWELM announced updated payment percentages. These percentages will result in KWELM's payment of approximately eighty percent (80%) of the proposed amount for the ISP Subject Sites. In February 2006, BFMIC also increased its payment percentage from 50% to 82%. The Insolvent Insurers, moreover, expect to make a further distribution of between one and three percent as they collect residual reinsurance.

18. Policyholders have opened an interest bearing escrow account with JP Morgan Chase Bank, N.A. ("JP Morgan Chase"). This escrow account, with JP Morgan Chase acting as escrow agent, will hold all funds paid by the Insolvent Insurers (the "Escrowed Settlement Amount") pending the Bankruptcy Court's ruling on this approval motion.

E. The Risks of Not Pursuing the Settlement.

19. Had Policyholders not resolved their coverage claims with the Insolvent Insurers, then the Insolvent Insurers would have referred Policyholders' claims to the "Scheme Adjudicator," in London, for final disposition. The Schemes give the Adjudicator final say over the value of Policyholders' claims with no right of appeal. The Schemes identify Ivor Kiverstein as the Adjudicator. The Insolvent Insurers advised that as of the date of their settlement with Policyholders, the Adjudicator had resolved no disputed claims. Subsequently, however, Policyholders were advised that a company whose claim had been assessed at zero sent its claim to adjudication and that the Adjudicator affirmed the evaluation (at zero) and assessed the company 50% of the costs for the adjudicatory process.

20. Policyholders, therefore, have almost no basis upon which to predict how Mr. Kiverstein might value Policyholders' claims. However, given Mr. Kiverstein's actions with respect to this other contested claim, it is likely that the adjudication process would have affirmed the determination made by KWELM as to the environmental award with a possibility that plaintiffs also would be charged with the administrative costs.

21. Moreover, the Schemes give the Adjudicator sole discretion to resolve a disputed claim based upon the Insolvent Insurers' file or to request further written submissions from the parties. The Schemes forbid oral presentations. The Schemes also require the Adjudicator to "endeavor to resolve each dispute within 90 days of the matter being referred to him." Given this time limitation, Mr. Kiverstein probably would have ruled on Policyholders' objections based solely on the Insolvent Insurers' file.

22. The Schemes allow the Adjudicator to value claims below the amount determined by the Insolvent Insurers. Had Policyholders opted for adjudication, therefore, Mr. Kiverstein could have valued their claim at an amount lower than the Insolvent Insurers' initial determination. The Adjudicator also could have charged Policyholders for his time and expenses if he ruled against their challenge to the Insolvent Insurers' determinations.

23. Given the uncertainties presented by the adjudication process, and the Insolvent Insurers' acceptance of most of Policyholders' claims, Policyholders made a reasoned decision to accept the Insolvent Insurers' substantially increased revised determinations.

24. Pursuant to 28 U.S.C. § 1746, I swear under penalty of perjury that the foregoing
is true and correct.

/s/ Anthony Bartell
Anthony Bartell

Executed on September 5, 2006

Subscribed and sworn to before me
this 5th day of September, 2006.

/s/ Charlotte Majette
Notary Public

UNITED STATES BANKRUPTCY COURT
DISTRICT OF NEW JERSEY

RIKER, DANZIG, SCHERER, HYLAND & PERRETTI LLP

Dennis J. O'Grady, Esq. (DO-7430)

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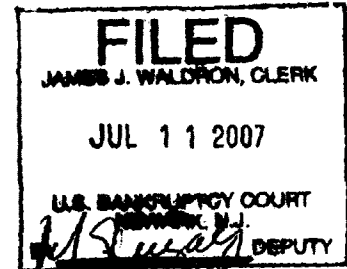
Attorneys Appearing:

Co-Counsel to the Debtors

In re:

G-I HOLDINGS INC., et al.,

Debtors.



In Proceedings for Reorganization Under Chapter 11

Hon. Rosemary Gambardella, Chief U.S.B.J.

Case Nos. 01-30135 (RG) and 01-38790 (RG)
(Jointly Administered)

**ORDER PURSUANT TO BANKRUPTCY RULE 9019(A) APPROVING
SETTLEMENT WITH KWELM AND THE BERMUDA FIRE & MARINE
INSURANCE COMPANY LIMITED IN LIQUIDATION**

Based upon the record in this matter, the relief set forth in paragraphs 1 to 5 on the following pages, numbered two (2) through three (3), is hereby **ORDERED**.

7-11-07

USBT

In re G-I Holdings Inc., et al., Bankr. Nos. 01-30135 (RG) and 01-38790 (RG) (Jointly Administered)

ORDER PURSUANT TO BANKRUPTCY RULE 9019(A) APPROVING SETTLEMENT WITH KWELM AND THE BERMUDA FIRE & MARINE INSURANCE COMPANY LIMITED IN LIQUIDATION

Page 2 of 3

THIS MATTER having been opened to the Court by Riker, Danzig, Scherer, Hyland & Perretti LLP and Weil, Gotshal & Manges LLP, co-counsel to the debtors and debtors-in-possession herein, G-I Holdings Inc. and ACI, Inc. (together, the "Debtors"), upon the Motion of G-I Holdings Inc. for an Order Pursuant to Bankruptcy Rule 9019(a) Approving Settlement with KWELM and the Bermuda Fire & Marine Insurance Company Limited in Liquidation submitted on September 6, 2006 (the "9019 Motion"); and the Court having reviewed the 9019 Motion and the Affidavit of Anthony Bartell in support of the 9019 Motion; and it appearing that:

(i) G-I, International Specialty Products Inc. ("ISP") and Building Materials Corporation of America ("BMCA") are policyholders (collectively, the "Policyholders") under various policies of excess insurance (the "London Market Policies") sold by Certain Underwriters at Lloyds, London and Certain London Market Insurance Companies (collectively, "London Market Insurers") to which certain insolvent insurers, KWELM¹ and The Bermuda Fire & Marine Insurance Company Limited ("BFMIC" and, together with KWELM, collectively the "Insolvent Insurers"), subscribed,

(ii) the Policyholders submitted claims in the Insolvent Insurers' insolvencies proceedings for the only three sites at which their covered environmental liabilities reached the London Market Policies to which the Insolvent Insurers subscribed; to wit, the Linden site in New Jersey, the LCP site in New Jersey, and the Picillo site in Rhode Island (the "Claims");

(iii) the Insolvent Insurers objected to the amount of the Claims and the Policyholders and the Insolvent Insurers entered into negotiations to fix the amount of the claims;

¹ KWELM is an acronym for the following five insolvent insurance companies: Kingscroft Insurance Company Limited, Walbrook Insurance Company Limited, El Paso Insurance Company Limited, Lime Street Insurance Company Limited and Mutual Re Insurance Company Limited.

In re G-I Holdings Inc., et al., Bankr. Nos. 01-30135 (RG) and 01-38790 (RG) (Jointly Administered)

ORDER PURSUANT TO BANKRUPTCY RULE 9019(A) APPROVING SETTLEMENT WITH KWELM AND THE BERMUDA FIRE & MARINE INSURANCE COMPANY LIMITED IN LIQUIDATION

Page 3 of 3

(iv) based on the facts set forth in the 9019 Motion and the Affidavit of Anthony Bartell in support of the 9019 Motion, the proposed allowed amount of the Claims in the Insolvent Insurers' insolvency proceedings (a) is fair and is above the lowest point in the range of reasonableness, (b) was negotiated in good faith and at arms-length, and (c) is in the best interest of the Debtor's bankruptcy estate;

and for good cause shown,

THE COURT ORDERS THAT:

1. The 9019 Motion be, and hereby is, APPROVED.
2. G-I be, and hereby is, AUTHORIZED to execute any documents necessary to resolve the Claims and release the Escrowed Settlement Amount (as defined in the 9019 Motion).
3. The Escrow Agent (as defined in the 9019 Motion) be, and hereby is, AUTHORIZED and DIRECTED to release to ISP any and all payments received from KWELM and BFMIC to the Escrow Account (as defined in the 9019 Motion).
4. The Insolvent Insurers be, and hereby are, AUTHORIZED and DIRECTED to make any further distribution on account of the Claims directly to ISP.
5. The Debtor's counsel be, and hereby is, DIRECTED to serve a true copy of this Order upon the United States, their counsel, if any, the Office of the United States Trustee and the Core Service List within seven (7) days after its receipt of an entered copy of this Order.

3613426.4

6. This Order incorporates ~~the terms of~~ the Stipulation ~~attached hereto as Exhibit A~~ by and among G-I, the Committee, ISP, and the Legal Representative regarding the KWELM, Bryanston and Hartford 9019 Motions entered by the Court on July 11, 2007.

3613426.4

9/6/06

UNITED STATES BANKRUPTCY COURT
DISTRICT OF NEW JERSEY

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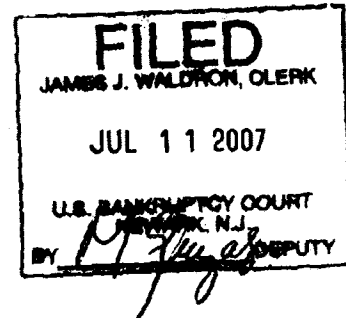
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Co-Counsel to the Debtors and Building Materials Corporation of America

In re:

G-I HOLDINGS INC., et al.,

Debtors.



In Proceedings for Reorganization Under Chapter 11

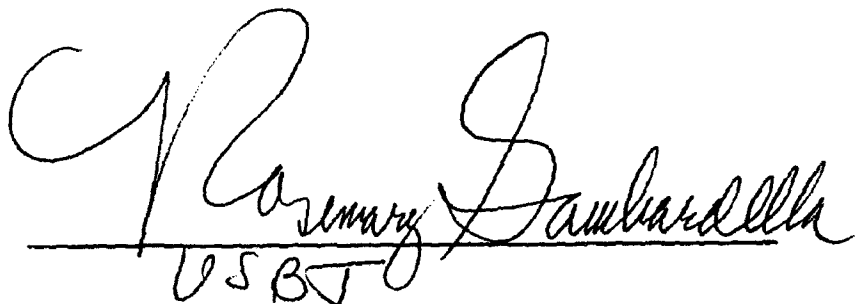
Hon. Rosemary Gambardella, U.S.B.J.

Case Nos. 01-30135 (RG) and 01-38790 (RG)
(Jointly Administered)

STIPULATION AND CONSENT ORDER REGARDING MOTIONS OF G-I HOLDINGS INC. FOR ORDERS PURSUANT TO BANKRUPTCY RULE 9019(A) APPROVING SETTLEMENTS WITH KWELM, BERMUDA FIRE & MARINE INSURANCE COMPANY LIMITED, AND BRYANSTON INSURANCE COMPANY AND MOTION OF G-I HOLDINGS INC. PURSUANT TO BANKRUPTCY RULE 9019(A) AND BANKRUPTCY CODE § 363 FOR AN ORDER APPROVING SETTLEMENT AGREEMENT AND AUTHORIZING THE SALE OF INSURANCE POLICIES FREE AND CLEAR OF LIENS, CLAIMS, INTERESTS AND OTHER ENCUMBRANCES

The relief set forth on the following pages, numbered two (2) through six (6), is hereby **ORDERED**.

7-11-07


USBJ

STIPULATION AND CONSENT ORDER REGARDING MOTIONS OF G-I HOLDINGS INC. FOR ORDERS PURSUANT TO BANKRUPTCY RULE 9019(A) APPROVING SETTLEMENTS WITH KWELM, BERMUDA FIRE & MARINE INSURANCE COMPANY LIMITED, AND BRYANSTON INSURANCE COMPANY AND MOTION OF G-I HOLDINGS INC. PURSUANT TO BANKRUPTCY RULE 9019(A) AND BANKRUPTCY CODE § 363 FOR AN ORDER APPROVING SETTLEMENT AGREEMENT AND AUTHORIZING THE SALE OF INSURANCE POLICIES FREE AND CLEAR OF LIENS, CLAIMS, INTERESTS AND OTHER ENCUMBRANCES

WHEREAS, the following motions were filed with the Court by Riker, Danzig, Scherer, Hyland & Perretti LLP and Weil, Gotshal & Manges LLP, co-counsel to the debtors and debtors-in-possession herein, G-I Holdings Inc. ("G-I") and ACL, Inc. ("ACL" and together with G-I, the "Debtors"): (i) Motion of G-I Holdings Inc. for an Order Pursuant to Bankruptcy Rule 9019(a) Approving Settlement with KWELM and the Bermuda Fire & Marine Insurance Company Limited in Liquidation, filed September 6, 2006 (the "KWELM Motion"); (ii) Motion of G-I Holdings Inc. for an Order Pursuant to Bankruptcy Rule 9019(a) Approving Settlement with Bryanston Insurance Company Limited in Liquidation, filed September 6, 2006 (the "Bryanston Motion"); and (iii) Motion of G-I Holdings Inc. Pursuant to Bankruptcy Rule 9019 and Bankruptcy Code § 363 for an Order Approving Settlement Agreement and Authorizing the Sale of Insurance Policies Free and Clear of Liens, Claims, Interests and Other Encumbrances, filed October 11, 2006 (the "Hartford Motion" and, together with the KWELM Motion and the Bryanston Motion, the "9019 Motions"); and

WHEREAS, the Official Committee of Asbestos Claimants (the "Committee") and the Legal Representative of Present and Future Holders of Asbestos-Related Demands (the "Legal Representative") requested information related to the 9019 Motions; and

WHEREAS, on September 20, 2006, the Committee entered into a Confidentiality Agreement Regarding Environmental Insurance Settlement Information (the "Committee Confidentiality Agreement"); and

WHEREAS, on September 28, 2006, the Legal Representative entered into a Confidentiality Agreement Regarding Environmental Insurance Settlement Information (the

STIPULATION AND CONSENT ORDER REGARDING MOTIONS OF G-I HOLDINGS INC. FOR ORDERS PURSUANT TO BANKRUPTCY RULE 9019(A) APPROVING SETTLEMENTS WITH KWELM, BERMUDA FIRE & MARINE INSURANCE COMPANY LIMITED, AND BRYANSTON INSURANCE COMPANY AND MOTION OF G-I HOLDINGS INC. PURSUANT TO BANKRUPTCY RULE 9019(A) AND BANKRUPTCY CODE § 363 FOR AN ORDER APPROVING SETTLEMENT AGREEMENT AND AUTHORIZING THE SALE OF INSURANCE POLICIES FREE AND CLEAR OF LIENS, CLAIMS, INTERESTS AND OTHER ENCUMBRANCES

“Legal Representative Confidentiality Agreement,” and together with the “Committee Confidentiality Agreement,” the “Confidentiality Agreements”); and

WHEREAS, on September 28, 2006, and on various subsequent dates, G-I provided the Committee and the Legal Representative with documents that G-I designated confidential related to the 9019 Motions pursuant to the Confidentiality Agreements; and

WHEREAS, on November 29, 2006, and December 6, 2006, G-I met with the Committee and the Legal Representative and discussed the 9019 Motions and the documents G-I produced pursuant to the Confidentiality Agreements; and

WHEREAS, on December 7, 2006, G-I filed certain documents that it designated as confidential and thereafter provided to the Committee and the Legal Representative pursuant to the Confidentiality Agreements under seal with the Court pursuant to the authority granted by the Order Pursuant to 11 U.S.C. § 107(b) and Fed. R. Bankr. P. 9018 Authorizing G-I Holdings Inc. to File Documents Under Seal, entered October 2, 2006, and the Order Pursuant to 11 U.S.C. § 107(b) and Fed. R. Bankr. P. 9018 Authorizing G-I Holdings Inc. to File Documents Under Seal – Hartford Settlement, entered October 31, 2006; and

WHEREAS, on March 5, 2007, G-I, its parent company, G Holdings, Inc., the Committee and the Legal Representative (collectively, the “Parties”) participated in a mediation; and

WHEREAS, following the mediation, the Parties outlined the principal terms of a potential global settlement of their outstanding disputes in these chapter 11 cases and agreed to

STIPULATION AND CONSENT ORDER REGARDING MOTIONS OF G-I HOLDINGS INC. FOR ORDERS PURSUANT TO BANKRUPTCY RULE 9019(A) APPROVING SETTLEMENTS WITH KWELM, BERMUDA FIRE & MARINE INSURANCE COMPANY LIMITED, AND BRYANSTON INSURANCE COMPANY AND MOTION OF G-I HOLDINGS INC. PURSUANT TO BANKRUPTCY RULE 9019(A) AND BANKRUPTCY CODE § 363 FOR AN ORDER APPROVING SETTLEMENT AGREEMENT AND AUTHORIZING THE SALE OF INSURANCE POLICIES FREE AND CLEAR OF LIENS, CLAIMS, INTERESTS AND OTHER ENCUMBRANCES

endeavor to complete the global settlement with comprehensive documentation in the form of a proposed chapter 11 plan and its ancillary documents; and

WHEREAS, during the remaining negotiations and pending final documentation of a global settlement, the Parties agreed to a stay of litigation pending before the Court and other courts to avoid the incurrence of additional expenses on litigation that would be eliminated if the global settlement is effectuated; and

WHEREAS, on March 22, 2007, the Court entered the Order Staying Certain Contested Matters and Adversary Proceedings, recognizing the Parties' potential global settlement and staying certain contested matters and adversary proceedings (the "Consensual Stay"); and

WHEREAS, after review and consideration of the 9019 Motions and the documents produced by G-I pursuant to the Confidentiality Agreements, the Committee and the Legal Representative determined that there is no basis to object to the reasonableness of the 9019 Motions, other than potentially with respect to the allocation of proceeds from the 9019 Motions among G-I, International Specialty Products Inc. ("ISP") and Building Materials Corporation of America ("BMCA"); and

WHEREAS, in view of the potential global settlement among the Parties, G-I, the Committee and the Legal Representative agreed that it was preferable to proceed with the 9019 Motions, and preserve any potential claim of the Committee or the Legal Representative as to allocation of the proceeds pending confirmation of a consensual plan of reorganization incorporating the global settlement terms.

IT IS hereby STIPULATED, ORDERED and DIRECTED as follows:

STIPULATION AND CONSENT ORDER REGARDING MOTIONS OF G-I HOLDINGS INC. FOR ORDERS PURSUANT TO BANKRUPTCY RULE 9019(A) APPROVING SETTLEMENTS WITH KWELM, BERMUDA FIRE & MARINE INSURANCE COMPANY LIMITED, AND BRYANSTON INSURANCE COMPANY AND MOTION OF G-I HOLDINGS INC. PURSUANT TO BANKRUPTCY RULE 9019(A) AND BANKRUPTCY CODE § 363 FOR AN ORDER APPROVING SETTLEMENT AGREEMENT AND AUTHORIZING THE SALE OF INSURANCE POLICIES FREE AND CLEAR OF LIENS, CLAIMS, INTERESTS AND OTHER ENCUMBRANCES

1. The Committee and the Legal Representative shall not object to and shall support the entry of orders approving the 9019 Motions.

2. Notwithstanding the above or the entry of orders approving the 9019 Motions, if the Consensual Stay is terminated prior to confirmation of a consensual plan of reorganization incorporating the global settlement terms, then the Committee's and the Legal Representative's rights and claims to the appropriate allocation of proceeds with respect to the 9019 Motions among G-I, ISP and BMCA are reserved. In that event, the Committee and the Legal Representative may assert these rights by motion in the bankruptcy court. G-I, ISP and BMCA hereby consent to jurisdiction for such a motion and waive any defenses based upon standing, statute of limitations and laches arising after the date of this Stipulation.

3. If a consensual plan of reorganization incorporating the global settlement terms is confirmed, then, on the Effective Date of that plan of reorganization, the Committee and the Legal Representative shall forfeit the rights and claims preserved herein to challenge the allocation of proceeds from the 9019 Motions among G-I, ISP and BMCA.

STIPULATION AND CONSENT ORDER REGARDING MOTIONS OF G-I HOLDINGS INC. FOR ORDERS PURSUANT TO BANKRUPTCY RULE 9019(A) APPROVING SETTLEMENTS WITH KWELM, BERMUDA FIRE & MARINE INSURANCE COMPANY LIMITED, AND BRYANSTON INSURANCE COMPANY AND MOTION OF G-I HOLDINGS INC. PURSUANT TO BANKRUPTCY RULE 9019(A) AND BANKRUPTCY CODE § 363 FOR AN ORDER APPROVING SETTLEMENT AGREEMENT AND AUTHORIZING THE SALE OF INSURANCE POLICIES FREE AND CLEAR OF LIENS, CLAIMS, INTERESTS AND OTHER ENCUMBRANCES

4. G-I's counsel be, and hereby is, DIRECTED to serve a true copy of this Order upon the Core Service List, the 2002(g) Service List, and counsel for the insurers related to the 9019 Motions within seven (7) days after its receipt of an entered copy of this Order.

RIKER, DANZIG, SCHERER, HYLAND &
PERRETTI LLP
Co-Counsel to the Debtors and Building
Materials Corporation of America

LOWENSTEIN SANDLER, PC
Co-Counsel to the Official Committee of
Asbestos Claimants

By: /s/ Dennis J. O'Grady
Dennis J. O'Grady (DO 7430)

By: /s/ Michael D. Lichtenstein
Michael D. Lichtenstein (ML 15979)

Dated: July 6, 2007

Dated: July 10, 2007

SAIBER SCHLESINGER SATZ &
GOLDSTEIN, LLC
Co-Counsel the Legal Representative of
Present and Future Holders of Asbestos-
Related Demands

INTERNATIONAL SPECIALTY
PRODUCTS INC.

By: /s/ Gregory J. Ruffing
Gregory J. Ruffing
Assistant Secretary

By: /s/ Nancy A. Washington
Nancy A. Washington (NW 4350)

Dated: July 10, 2007

Dated: July 6, 2007

-and-

KEATING MUETHING & KLEKAMP PLL
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